



2000 ANNUAL REPORT

Joint Enforcement Strike Force on the Underground Economy

A Report to the California Legislature

Employment Development Department

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Employment Development Department

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EXECUTIVE SUMMARY

In October 1993 an Executive Order was issued forming the Joint Enforcement Strike Force on the Underground Economy (Strike Force). The purpose of the Strike Force is to combat the underground economy by pooling resources and sharing data among the State agencies charged with enforcing licensing, labor, and tax laws. Senate Bill (SB) 1490 (Chapter 1117, Statutes of 1994) codified the Strike Force, established a January 1, 2000, sunset date, and required the Strike Force to issue an annual report to the Governor and the Legislature. The SB 319 (Chapter 306, Statutes of 1999) extended the sunset date to January 1, 2006. Strike Force members are the Employment Development Department (EDD), which is the lead agency, the Department of Consumer Affairs (DCA), the Department of Industrial Relations (DIR), the Office of Criminal Justice Planning, the Franchise Tax Board (FTB), the Board of Equalization (BOE), and the Department of Justice (DOJ).

Since the formation of the Strike Force, three enforcement efforts have been implemented:

1. The Employment Enforcement Task Force (EETF)
2. The Construction Enforcement Project (CEP)
3. The Janitorial Enforcement Project (JEP)

As of December 31, 2000, the Strike Force had accomplished the following:

- The EETF became operational in February of 1994 and has conducted 7,393 investigations. These investigations resulted in the issuance of 6,325 citations totaling \$37,667,250 for various violations of the Labor Code. These investigations also initiated 3,785 payroll tax audits, of which 3,280 have been completed, resulting in assessments totaling \$51,173,365 in unpaid employment taxes. In addition, 30,688 workers, who should have been reported as employees, but were not, were identified.

Average EDD payroll tax assessments resulting from EETF referrals have increased from \$3,397 in 1994 to \$17,504 in 2000. Average Labor Code citations resulting from EETF investigations have also increased dramatically from \$3,118 in 1994 to \$6,718 in 2000.

- The CEP began as a pilot project in 1994 and was expanded statewide as of December 31, 1995. The CEP initiated 1,130 audits in the construction industry, and through December 31, 2000, 997 audits have been completed, resulting in assessments of \$56,891,760 in unpaid employment taxes. In addition, 19,189 workers were identified who should have been classified as employees but were not.

- The EDD began looking into the janitorial industry in the summer of 1998 as a result of information provided by the owner of a Southern California janitorial business. In 1998, three underground economy janitorial businesses were identified and audited. In 1999, six additional underground economy janitorial businesses were identified and audited. In total, all nine businesses were assessed \$3,796,221 in unpaid employment taxes plus penalty and interest charges for an average of \$421,802 per audit. In addition, 598 unreported employees were discovered.

Assembly Bill (AB) 613 (Chapter 299, Statutes of 1999) required the Strike Force to include the janitorial and building maintenance industry as a targeted industry beginning in the 2000/2001 fiscal year. To meet this requirement, the Strike Force initiated the JEP in October 2000. The focus strategy for the JEP will be to increase EDD resources devoted to the janitorial and building maintenance industry in both Southern and Northern California. Additional resources were made available to the Strike Force as a result of the EDD Underground Economy Operations (UEO) budget change proposal (BCP) for State Fiscal Year (SFY) 2000/2001. Additional audit staff were hired, and training was completed in late October 2000. The Strike Force will use the 1998/1999 experience in Southern California as a model for developing an approach to determining the level of noncompliance in the janitorial industry throughout California.

The Strike Force has achieved significant enforcement results. Joint efforts have proven to be very effective. Collective enforcement capability allows participating agencies to address multiple rather than single violations of law. The multiple enforcement efforts with associated citations, penalties, and assessments have had a significant effect on underground economy businesses. The intent is to drive these businesses into the legitimate economy or to put them out of business. This reduces the pressure of unlawful competition on honest businesses.

The Strike Force continues to enjoy valuable communication links with business and labor organizations in industries prone to underground economy activity. Consequently there is a broader awareness of compliance issues by members of these industries, which has helped uncover underground economy schemes employed in these industries.

Our challenge is to continue to maximize the effective use of our resources to reach those who intentionally disregard the law, undercut their competitors, and deny workers the benefits to which they are entitled.

BACKGROUND

The Strike Force was established by Executive Order W-66-93 on October 26, 1993. The purposes of the Strike Force are to enhance the development and sharing of information necessary to combat the underground economy; to improve the coordination of enforcement activities; and to develop methods to pool, focus, and target the enforcement resources of all members in support of the enforcement activities of individual agencies.

Subsequent legislation, SB 1490 (Chapter 1117, Statutes of 1994), codified the Executive Order by enacting Section 329 of the California Unemployment Insurance Code (CUIC) and established a January 1, 2000, sunset date. The SB 319 (Chapter 306, Statutes of 1999) extended the sunset date to January 1, 2006. Member agencies include EDD, DIR, DCA, FTB, BOE, DOJ, and the Office of Criminal Justice. The EDD Director is the Chairperson.

The Internal Revenue Service (IRS) and Strike Force members, EDD, FTB, and BOE, are involved in Strategic Tax Partnership activities which will further the goals of the Strike Force. These efforts are focused on long-range projects to enhance information sharing, increase taxpayer access to information, minimize redundant tax requirements, and maximize the use of shared information to increase compliance with tax laws.

The Strike Force focuses on implementing joint enforcement projects among member agencies. The EETF, which became operational on February 7, 1994, initially focused on joint enforcement of payroll tax, labor, and licensing laws in the automotive repair, garment manufacturing, and construction industries. During the next three years, bars, restaurants, nightclubs, furniture manufacturers, adult entertainment establishments, bakeries, produce markets, car washes, pallet repair businesses, and cabinet manufacturers were added to the target group. These industries receive special attention because experience demonstrates a significant rate of noncompliance with employment tax and labor laws. In late 1999, the janitorial and building maintenance industry was added to the target list.

There were 18 full-time agents, nine each from EDD and DIR, assigned to EETF until June 30, 1998. On July 1, 1998, DIR changed its level of involvement with EETF to five agents participating one or two days per week. In late December 1998, EDD and DIR entered into an agreement whereby DIR agreed to increase its participation in EETF. Meanwhile, EDD has continued to dedicate nine full-time agents to EETF. In late 1999, DIR agreed to dedicate nine full-time agents to EETF. In addition, eight EDD investigators are assigned to CEP.

On July 1, 2000, the Strike Force received additional funding from the EDD UEO SFY 2000/2001 BCP to fill 12 Tax Auditor IV and 2 Tax Administrator I positions. These new resources will be used to target the following industries starting in SFY 2000/2001:

- Public works
- Landscape maintenance
- Security guards
- Janitorial and building maintenance

The 12 audit staff and 2 tax administrators were hired, and training was completed in late October 2000.

A system for identifying businesses that are suspected of operating in the underground economy was designed and implemented. There are four major sources of leads: hotline calls, other government agencies, industry contacts, and the Strike Force staff.

The CEP was implemented on July 1, 1994, as a nine-month pilot project in the Sacramento area, to detect underground economy activity in the construction industry. Based on the success of the pilot project, the CEP was expanded statewide as of December 31, 1995.

The EDD began looking into the janitorial industry in the summer of 1998 as a result of information provided by the owner of a Southern California janitorial business. In 1998, three underground economy janitorial businesses were identified and audited. In 1999, six additional underground economy janitorial businesses were identified and audited. In total, all nine businesses were assessed \$3,796,221 in unpaid employment taxes plus penalty and interest charges for an average of \$421,805 per audit. In addition, 598 unreported employees were discovered.

Strike Force staff also recognized the need to combine an ongoing educational program with enforcement activities. Staff have conducted outreach presentations to business and labor organizations throughout the State and to representatives of local government agencies. These presentations informed a large number of people about Strike Force activities and continue to be an excellent source for leads.

The goals of the Strike Force are:

- To eliminate unfair business competition.
- Protect workers by ensuring that they receive all benefits to which they are entitled by law relating to wages and hours, health and safety, and income replacement.
- Protect the consumer by ensuring that all businesses are properly licensed and that they adhere to the State's consumer protection regulations.
- Reduce the burden on law-abiding citizens by ensuring that all businesses and individuals comply with the State's licensing, regulatory, and tax laws.
- Increase voluntary compliance with the State's tax laws to maximize the State's general and special fund revenue.

A summary of information required by Section 329 of the CUIA is included in this report.

JOINT ENFORCEMENT PROJECTS

The Strike Force is empowered to form joint enforcement teams to utilize the collective investigative and enforcement capabilities of the participating members. Two Strike Force joint enforcement projects, the EETF and the CEP are discussed below. In addition, the Targeted Industries Partnership Program (TIPP), an effort separate from the Strike Force is also discussed.

Employment Enforcement Task Force

The EETF is the first joint enforcement project created by the Strike Force. Participating agencies include EDD and DIR with strong support from the Contractors' State License Board (CSLB) and the Bureau of Automotive Repair (BAR) within DCA. The goal of EETF is to identify and bring into compliance those individuals and businesses in the underground economy and in violation of payroll tax, labor, and licensing laws. In 1994, EETF focused on the construction, automotive repair, and garment manufacturing industries. During the next three years, bars, restaurants, nightclubs, furniture manufacturers, adult entertainment establishments, bakeries, produce markets, car washes, pallet repair businesses and cabinet manufacturers were added to the target group. In late 1999, the janitorial and building maintenance industry was added to the target list. Although EETF focuses on industries known to have a high degree of noncompliance, investigations of businesses not included in the target group are also investigated when underground economy activity is suspected.

The EETF agents from each agency jointly conduct onsite investigations of businesses by interviewing owners, managers, and workers to determine if businesses are in compliance with payroll tax, labor, and licensing laws. To minimize the disruption of compliant businesses, EETF conducts investigations only if there is reasonable belief of violations of the CUIC, Labor Code, and/or the Business and Professions Code.

A system for identifying businesses that are suspected of operating in the underground economy has been designed and implemented. There are four major sources of leads: hotline numbers, other government agencies, industry sources, and EETF staff. Separate, statewide hotline numbers were published and advertised for the construction industry and the automotive repair industry. One statewide hotline number was established for all other industries.

The EETF has established close ties with CSLB, BAR, and the Bureau of Home Furnishings and Thermal Insulation, all within DCA. We have developed cooperative liaisons with the Public Utilities Commission and BOE and have also networked with many local law enforcement agencies in their various programs involving vice, automotive theft, and problem-oriented policing.

One of our most effective partnerships continues to be the joint enforcement effort with the Department of Alcoholic Beverage Control (ABC), BOE, and local law enforcement.

Our partnership began in early 1995, with ABC and local law enforcement agencies selected to receive State grants from the Grant Assistance for Local Law Enforcement (GALE) Program. The focus of GALE is to provide funds to help in reducing the amount of crime committed in neighborhoods and business districts where alcohol is a factor. The GALE Program targets licensees who allow criminal activities to take place in or around their premises. The grants are designed to enhance the State and local partnership in dealing with alcohol-related crime and to encourage the development of new, more efficient methods for enforcing the State's liquor laws that can be adopted by other law enforcement agencies. The early success of our joint enforcement efforts with ABC, BOE, and GALE grantees resulted in other non-GALE local law enforcement agencies asking to be involved with EETF and ABC in joint operations. These operations not only addressed alcohol-related crimes, but other policing problems such as vice and money laundering.

Staffing for EETF was a challenge for both EDD and DIR during the year. Due to retirements and reassignments of DIR staff during the first part of the year, not all of the agent teams were able to work together and conduct joint inspections. During the second half of the year EDD had several vacancies which resulted in only 5 agent teams working together to conduct joint inspections. In addition, due to limited resources and conflicting priorities, DIR staff assigned to the Strike Force were assigned other duties in order to meet DIR's operational goals and were not always available to work full-time with EDD staff. However, in order to maximize resources, EDD was able to participate on several DIR-sponsored construction sweeps throughout California as well as participating in the sweeps of California's racetrack operations. Finally, in order to maximize production for EDD's audit program, during late summer, EDD EETF staff were authorized to work alone and perform inspections of businesses suspected of working in the underground economy. The EDD EETF staff conducted 50 of these individual inspections.

In 2000, EETF conducted 394 investigations, of which 50 were conducted without Division of Labor Standards Enforcement's (DLSE) participation. These investigations resulted in \$2,102,750 in Labor Code citations and 257 audit referrals to EDD. During 2000, 369 audits were completed with tax assessments totaling \$6,459,041 (see Attachment A).

Average EDD payroll tax assessments resulting from EETF referrals have increased from \$3,397 in 1994, to \$9,485 in 1995, \$17,434 in 1996, \$18,209 in 1997, \$21,085 in 1998, \$23,711 in 1999 and \$17,054 in 2000 (see Attachment A). This improvement can be attributed, in part; to better targeting of underground economy businesses, increased joint enforcement with nonmember agencies and local law enforcement agencies, and improved auditing techniques.

Construction Enforcement Project

The CEP was established because the onsite investigation technique used by EETF for identifying tax and employment fraud, while effective in most industries, was not as effective in the construction industry. Unlike other industries, which have permanent

business locations, construction businesses frequently change job sites. By the time information is developed that a contractor is probably operating in the underground economy, work at the job site has often been completed, and an onsite inspection would not discover any labor law violations.

Both EETF and CEP pilot experience showed that there are two major types of contractors operating in the underground economy. The first type is a licensed or unlicensed specialty contractor with a relatively small operation. This contractor typically has one or two full-time employees plus additional seasonal workers. This employer is usually not registered with EDD and does not provide workers' compensation insurance coverage. The workers are usually paid in cash without deductions, and no employment taxes are paid. The amount of unpaid taxes attributable to one of these employers is relatively small, but the amount of unpaid taxes attributable to these employers as a group represents a significant amount of the underground economy in the construction industry.

The second type of contractor is typically registered with EDD and provides workers' compensation insurance coverage, but only reports and pays employment taxes on a portion of the work force. These contractors attempt to appear legitimate and often use sophisticated schemes to hide the unreported payroll in the records. Experience shows that these contractors are most commonly engaged in single-family residential construction. Individually, the amount of unpaid employment taxes is often high, and collectively, this group constitutes the largest segment of underground activity in the construction industry.

The CEP began as a nine-month pilot project in the Sacramento area on July 1, 1994. The purpose of the pilot was to determine if new investigation and audit techniques would successfully detect underground economy contractors. During the test, a variety of innovative and nontraditional techniques were used to identify contractors avoiding employment taxes. If a CEP investigator developed evidence of underground economy activities, a payroll tax audit referral was made to the EDD Audit Program for a special underground economy audit.

The CEP pilot resulted in the completion of 79 payroll tax audits with assessments for unpaid employment taxes totaling \$1,599,941. Since the average amount of these assessments was approximately four times greater than audit assessments using traditional techniques, the pilot was considered successful, and the CEP was expanded statewide as of December 31, 1995.

Experience during and after the pilot indicated CEP investigators need to specialize in segments of the construction industry to improve their ability to detect contractors operating in the underground economy. As a result, each CEP investigator is assigned a specific construction industry specialty with the exception of one investigator assigned exclusively to public works projects. For example, the investigator assigned the drywall specialty will work closely with legitimate contractors, suppliers, and labor organizations within that segment of construction to become a drywall expert.

The investigators will learn as much as possible about how business is conducted within their assigned specialty. Common business practices, terminology, typical ratios of material purchases to labor costs, and any other technical information will be developed and documented. A database of local contractors in that segment, as well as those who supply the materials and equipment, will be built, documented, and maintained. This information, in conjunction with the investigator's expertise, will be used to detect employers operating in the underground economy. Eventually, this expertise will also be used to prepare an industry specialty audit guide.

The CEP goal is to develop techniques that will maximize the detection of construction industry employers operating in the underground economy. In 2000, 129 CEP audits were completed resulting in assessments for \$12,649,766 in unpaid employment taxes for an average of \$98,060 per audit. Since the inception of CEP on July 1, 1994, 997 CEP audits were completed resulting in assessments totaling \$56,891,760 for an average of \$57,063 per audit (see Attachment B).

Janitorial Enforcement Project

The EDD UEO began looking into the janitorial industry in the summer of 1998 as a result of information provided by the owner of a Southern California janitorial business. In 1998, three underground economy janitorial businesses were identified. These businesses were audited and assessed a total of \$2,459,956 for unpaid employment taxes plus penalty and interest charges. As a result of this success, a UEO auditor was asked to target the janitorial industry in the Los Angeles area on a part-time basis.

In 1999, six additional underground economy janitorial businesses were identified and audited. In total, all nine businesses were assessed \$3,796,221 in unpaid employment taxes plus penalty and interest charges for an average of \$421,805 per audit. In addition, 598 unreported employees were discovered.

The results of the UEO work in 1998 and 1999 proved that significant noncompliance with the tax laws existed in the janitorial industry in Southern California. Therefore, a second auditor was assigned to assist the original auditor. The UEO has identified all the major janitorial companies in Southern California, identified the typical schemes used to avoid employment taxes, and developed working relationships with the Pacific Association of Building Service Contractors, the Maintenance Cooperation Trust Fund, and the Service Employees International Union. These organizations are all interested in cleaning up the janitorial industry and have been very supportive.

Assembly Bill 6 (Chapter 299, Statutes of 1999) required the Strike Force to include the janitorial and building maintenance industry as a targeted industry beginning in SFY 2000/2001. To meet this requirement, the Strike Force initiated the Janitorial Enforcement Project (JEP) in October 2000. The focus strategy for the JEP will be to increase the EDD resources devoted to the janitorial and building maintenance industry in both Southern and Northern California. Additional resources were made available to the Strike Force as a result of the EDD UEO budget change proposal for SFY 2000/2001. Additional audit staff were hired and training was completed in late

October 2000. The Strike Force will use the 1998/1999 experience in Southern California as a model for developing an approach to determining the level of noncompliance in the janitorial industry throughout California.

Targeted Industries Partnership Program

Strike Force staff from EDD were added to the Targeted Industries Partnership Program (TIPP) in 1996. The TIPP was established in 1992 as a multi-agency enforcement and educational program targeting the garment manufacturing and agricultural industries. These are industries that have a history of labor law and payroll tax violations. The original TIPP partners include the United States Department of Labor, Wage and Hour Division; and Department of Industrial Relations, DLSE and Occupational Safety and Health. The EDD's participation in TIPP has been limited primarily to the garment manufacturing industry. In 2000, EDD participated in 57 TIPP investigations, of which 17 were conducted without DLSE participation. These investigations initiated 57 payroll tax audits referrals. Seventy-four audits were completed, resulting in assessments totaling \$2,982,980 in unpaid employment taxes for an average of \$40,311 per audit.

SUMMARY OF INFORMATION REQUIRED BY SECTION 329 OF THE CUIC

This section includes information regarding blatant violations, publicity, hotlines, information sharing, and cooperation as mandated by Section 329 of the CUIC.

Blatant Violations

The Strike Force concentrates on implementing joint enforcement projects, which focus on administrative, rather than criminal resolution. The EETF detected the following number of blatant violations in 2000:

- The EETF issued Labor Code citations to 85 businesses for a total of \$1,008,250 for paying wages in cash without making the required payroll deductions.
- The EETF issued Labor Code citations to 224 businesses for a total of \$1,243,000 for failure to provide 1,243 workers with workers' compensation insurance coverage.

The following are examples of blatant violations detected by the Strike Force:

- At the request of the Santa Ana Police Department, EETF participated in a multi-agency operation and investigation of a bar. The bar had been in business since 1989 and had been previously audited by EDD. Ignoring advice from the EDD representative, the employers still chose to pay all employees in cash without issuing a deduction statement and intentionally underreported wages to EDD. At the time of the inspection, the employer was issued penalty assessments in the amount of \$14,000 for failure to have a valid workers' compensation insurance policy and \$106,250 for failure to issue deduction statements. A subsequent audit revealed unreported wages of \$680,634 paid to corporate officers, bartenders, waitresses, cooks, maintenance, and security guards. The liability for unpaid employment taxes plus fraud, penalty, and interest charges was \$187,814.
- The EETF conducted an investigation at the request of the Palo Alto Police Department of a business which specialized in various beauty treatments (i.e., massage therapy, skin treatments, and nail specialties). Based on prior police inspections, the location was suspected of paying some of the employees in cash and employees were working without proper licensing. The Police Department also suspected illicit activities were being performed. The inspection revealed that the employer employed 29 employees and, depending upon the individual agreements, paid some employees by check and reported those wages, but paid the remaining employees in cash and did not report those employees. Further investigation revealed the decision of payment was based on whether the individual was licensed and/or permitted to perform services being rendered. The employer was issued a penalty assessment in the amount of \$23,000 for failure to cover the employees with a workers' compensation insurance policy and an additional penalty of \$3,000 for

cash payments without a deduction statement. It should be noted the same individual owning the beauty business was also the primary corporate officer of a nightclub in neighboring city. A step-down investigation was made of the nightclub, and findings indicated significant underreporting of employees, cash pay issues, and nonreporting of corporate officers' salaries. Audit findings for both accounts resulted in a total of \$1,593,300 in unreported wages and approximately 48 unreported employees. Total tax liability assessed for the two businesses plus fraud penalty and interest charges was approximately \$360,842.

- A Los Angeles-based garment contractor was investigated as a result of a claim filed by a former employee. The claimant alleged that she was paid by check without an itemized deduction statement. The claimant stated that there were approximately 55 workers performing sewing services. The claimant worked 12 to 15 hours a day and was not paid for overtime hours worked. The investigation revealed that the employer had been in business since 1997 and failed to file any payroll tax returns to the Department. There were 23 workers present at the time of the inspection. The TIPP agents discovered that the employer paid the workers with checks that he required the workers to cash at a local check-cashing business. Once the checks had been cashed, the owner would reimburse the check-cashing business for the amount paid in cash to the workers and retain ownership of the checks. There were no tax withholdings made on the checks. The TIPP agents issued civil citations in the amount of \$4,550. A subsequent EDD audit resulted in a fraud assessment of \$175,319 for unpaid employment taxes plus penalties and interest charges.
- A security guard firm was investigated as a result of information provided by a former employee stating that taxes were being withheld from some of the workers and not others. It was discovered that the employer had registered with EDD but failed to report any wages or taxes. There were also complaints filed with the Labor Commissioner that the firm was paying straight time for overtime hours worked. In addition, the DCA, Bureau of Security and Investigative Services Enforcement Division, notified the employer to cease operating as a private patrol operator for not obtaining the proper license. The employer was issued an assessment in the amount of \$126,780 for unpaid employment taxes plus penalties and interest charges.
- While conducting random construction inspections, EETF conducted an inspection of a Sanger carpet installation company. The company had been in the installation business since 1988. On two separate occasions, the employer had been registered with EDD and reporting wages paid to employees. However in early 1997, the company decided to change the method of payment to their employees, ignoring the fact that the services being performed required a State contractor's license. Further investigation revealed the employer has paid workers approximately \$2.3 million in unreported wages. The employer was issued a penalty assessment in the amount of \$30,000 for entering into contracts with unlicensed contractors. A subsequent audit has determined all workers to be

statutory employees. The employer was issued an assessment in the amount of \$175,654 for unpaid employment taxes plus penalties and interest charges.

- The EETF investigated a Fontana pallet company based on random sampling of the industry. Preliminary screening indicated that the company was not registered with EDD, and no active workers' compensation insurance policy was in effect. An onsite inspection of the business was conducted and information revealed the company had once been registered with EDD and reporting wages. However, in early 1996, the company stopped reporting, and the account was inactivated. Further investigation revealed the company continued operating and began paying employees in cash. The company, a corporation, was issued a citation in the amount of \$73,250 for failure to issue deduction statements. A subsequent audit has determined the services of corporate officers, clerical help, drivers, and pallet workers to be in subject employment. Unreported wages in the amount of \$474,798 were discovered. The employer was issued an assessment in the amount of \$116,258 for unpaid employment taxes plus penalties and interest charges.
- An investigation of a general electrical contractor was initiated from information provided by union representatives alleging wages were not being reported to EDD. In addition, several prevailing wage claims were filed with the Labor Commissioner. This employer was awarded a total of \$7,469,237 in school district contracts. A preliminary investigation revealed the employer supplied certified payroll returns to the school district during the first and second quarters of 1999, but reported no payroll during this same time frame with EDD. In other quarters, the employer was classifying overtime and wages to day laborers as cost of goods sold and not reporting these amounts to EDD. The employer stopped supplying certified payroll returns and was given a notice of cessation by the school district. The employer was assessed \$528,739 for unpaid employment taxes, penalties including fraud, and interest charges.
- An investigation was initiated on a janitorial business based upon a phone call from an anonymous informant. The investigation revealed the janitorial business treated all of the workers as independent contractors when they should have been reported as employees. There were a total of 249 unreported employees being misclassified as independent contractors. The employer was assessed \$504,004 for unpaid employment taxes plus penalties and interest charges.
- The EETF conducted an inspection of an unregistered Central Valley concrete contractor based on a hotline lead. The informant indicated the employer was working for a large contractor in the Bay area, and all employees were being paid "under the table". A visit to the jobsite confirmed the caller's allegation. The contractor had been working for the prime contractor since 1996. He was providing the cement and laborers for foundation work, without a contractor's license, and paying all employees in cash. An EDD audit determined the employer failed to report \$866,295 in wages to 100 employees. The contractor was assessed \$101,600 for unpaid employment taxes plus penalties and interest charges.

- The EETF conducted an inspection of a Redlands fast-food business based on a claim filed with the Labor Commissioner's office by an employee alleging overtime issues and payment of wages for the past two years in cash without deductions being withheld. The investigation revealed the business location had been previously owned and operated as a corporation. The current owner, a former officer of the corporation, at the time, owned a single location as a sole proprietorship. In early 1998, the employer purchased three additional locations from the corporation. At that time, the employer changed his method of payment and began paying many of the employees in cash without taking deductions. An EDD audit confirmed the employer does indeed own and operate four fast-food businesses. During the period 1995 through 1999, he paid as many as 50 employees in cash and failed to report approximately \$1.6 million in wages. The employer was assessed \$193,531 for unpaid employment taxes plus penalties and interest charges.
- A Los Angeles garment contractor was investigated as a result of information provided by DIR. A preliminary review of the databases disclosed that the factory did not have a valid workers' compensation insurance policy. The business was registered with EDD and reporting average gross wages of \$17,835 with an average of 17 workers. There were 75 workers present on the day of the site inspection. The TIPP agents issued citations in the amount of \$1,900 for record keeping violations and \$59,000 for failure to have a workers' compensation insurance policy. An EDD audit resulted in a fraud assessment for \$75,563 in unpaid employment taxes plus penalties and interest charges.
- A general contractor operating under different business names was investigated after workers filed for benefit claims. The contractor was recently awarded public work contracts to install fiber optics wiring on freeway on-ramps. The contractor submitted certified payroll reports and was withholding taxes but did not report any of this to EDD. The EDD audit resulted in a fraud assessment covering periods dating back to 1974 for \$5,927,807 in unpaid employment taxes plus penalties and interest charges.
- The EETF investigated a Los Angeles bar at the request of Los Angeles Police Department and ABC. The bar had been in business since 1992 and employed bartenders and waitresses. All employees were paid in cash weekly without deductions. At no time did the employer attempt to register with EDD or secure a worker's compensation insurance policy. Citations were issued to the employer in the amount of \$63,000 for paying wages without issuing a deduction statement and in the amount of \$10,000 for failure to have a workers' compensation insurance policy. A subsequent EDD audit discovered approximately \$365,040 in unreported wages. The employer was issued an assessment in the amount of \$69,254 for unpaid employment taxes plus penalties and interest charges.
- A garment contractor located in downtown Los Angeles was investigated by TIPP for paying workers in cash without issuing itemized deduction statements. The employer was registered with EDD and reporting an average of 4 workers. There

were 25 workers present at the time of the inspection. The owner paid the majority of the workers by cash without issuing itemized deduction statements for their services. An EDD audit resulted in a fraud assessment of \$121,255 for unpaid employment taxes plus penalties and interest for 30 unreported employees.

- An interior design company was investigated after a former employee provided several allegations. The company is alleged to operate under different business names and pay cash under the table to acknowledged employees. In addition, the company is said to use other workers and is not reporting their wages to EDD. The EDD audit verified the employer was indeed paying cash and not reporting the proper amount of wages. There were a total of 106 employees not being reported. The employer was assessed \$67,677 for unpaid employment taxes, penalties including fraud, and interest charges.
- The EETF conducted an inspection of a San Francisco licensed concrete contractor based on a lead from the Labor Commissioner's office indicating the contractor was providing laborers for three public works contracts in Bay area schools. An inspection was made at the job site, and it was discovered that although the CSLB properly licensed the employer, he had allowed his EDD account to go inactive in 1997. Further investigation confirmed the employer also intentionally failed to secure a valid workers' compensation insurance policy. The employer refused to attend audit appointments and make his payroll records available to the Department representative. Based on findings at the time of the EETF inspection, workers were determined to be unlicensed contractors and held statutory employees. Unreported wages were found in the amount of \$597,342. An estimated assessment was issued based on hourly rates taken from certified payroll reports prepared by the employer and required for public works contracts. Total tax liability including fraud and interest charges amounts to \$126,810.
- The EETF conducted an inspection of a Fullerton framing contractor based on a lead received indicating he had workers providing services at three separate locations, paying cash, and failing to report and remit monies to EDD. The inspection revealed the employer, although registered with the Department, had been ignoring reporting requirements and had been paying part-time workers cash without making withholdings from 1991 through 1999. Workers were determined to be unlicensed contractors and statutory employees. An EDD audit discovered \$612,560 in unreported wages, and the employer was assessed \$114,900 for unpaid employment taxes, penalties including fraud, and interest charges.
- An anonymous informant provided information on a security guard business alleging all of the employees were being paid in cash. The informant also stated many of the employees chose to accept cash because of existing earning withholding orders. The owner of the business is also alleged to have used another individual's private patrol operator's license. The employer was assessed \$241,799 for unpaid employment taxes, penalties including fraud, and interest charges.

- A Los Angeles restaurant was investigated by TIPP as a result of a complaint received by DIR. The worker alleged that he was paid below minimum wage, did not receive overtime pay, and was paid in cash. During the site inspection, the employer admitted to paying employees in cash and not withholding payroll taxes. The employer paid cash to workers who did not provide identification and to those who requested to be paid in cash. In addition, the employer did not report the meals that were furnished to the employees for the convenience of the employer. A subsequent audit revealed that in addition to paying workers in cash, the employer misclassified chefs who worked on a part-time basis. The employer claimed the wages on his tax return as Casual Labor and Legal and Professional Fees. The audit resulted in a fraud assessment of \$306,027 for unpaid employment taxes plus penalties and interest.

Publicity

The Strike Force actively pursues opportunities to make presentations to employer groups, trade associations, labor organizations, other government agencies, and any other organization that may have an interest in the efforts to combat the underground economy. The purpose of these presentations is to educate the public about the mission of the Strike Force, publicize its accomplishments, heighten awareness of the types of services available from the Strike Force, and to solicit cooperation in Strike Force efforts. These presentations emphasize the need to eliminate unfair competition, the need to ensure that employees are provided the benefits to which they are legally entitled, the adverse impact the underground economy has on government revenue, and the value of partnering to effectively utilize limited resources.

In addition to making these types of presentations, in 2000, Strike Force staff focused on networking with officials from business associations, labor organizations, local law enforcement agencies, and other governmental agencies for purposes of describing our program and soliciting investigative leads. In 2000, network meetings were held with the following organizations:

State Departments

Board of Equalization
Board of Pharmacy
California Highway Patrol
Contractor State Licenses Board
Dental Board
Department of Aging
Department of Alcoholic Beverage Control
Department of Consumer Affairs, Bureau of Automotive Repair
Department of Consumer Affairs, Bureau of Home Furnishings & Thermal Insulation
Department of Fish and Game
Department of Health Services, Food & Drug Branch
Department of Health Services, Investigation Division, Medi-Cal Fraud Prevention Bureau
Department of Housing and Community Development
Department of Industrial Relations, Division of Occupational Safety and Health
Department of Insurance
Department of Justice
Department of Justice Planning
Department of Motor Vehicles
Franchise Tax Board
Governor's Medi-Cal Fraud Task Force
Horse Racing Board
Inter-Agency Counter Narcotics Drug Diversion Task Force
Medical Review Board

Sheriff's Departments

Los Angeles County
Sacramento County
San Bernardino County

Police Departments

City of Fontana
City of Huntington Beach
City of Los Angeles
City of Martinez
City of Oakland
City of Orange
City of Riverside
City of Sacramento
City of San Jose
City of San Leandro
City of Santa Ana
City of West Sacramento
City of Westminster
Nevada City

Union Organizations

California Administrative Law Judge Association
California State Council of Laborers
California State PIPE Trades Council
California Thoroughbred Trainers Association
Center for Contract Compliance
Foundation for Fair Contracting
International Association of Personnel in Employment Security
International Painters Union
International Union of Operating Engineers
Iron Workers Local 433
Los Angeles & Orange Counties Building & Construction Trade Council
Maintenance Cooperation Trust Fund
National Electrical Contractors Association
Plasterer's Union Local 200
Service Employees International Union
Sheet Metal Workers Local 108
Southern California District Council of Laborers

Private Businesses/Organizations

Association of California Insurance Companies
Institute for Tax Administration
Mendel Group
Pacific Association of Building Service Contractors
Politico Group
Southern California Association of Code Enforcement Officials

Other Governmental Organizations

American River Fire Department
City of Fontana Code Enforcement Department
City of Garden Grove
City of Long Beach Business License Department
City of Oakland, Building Services Department
City of Riverside Code Enforcement Department
City of Riverside Financial Crimes Unit
City of Sacramento Building Department
City of Sacramento Department of Adult Services
City of Sacramento Department of Business Licensing
City of Sacramento District Attorney's Office
City of Sacramento Metro Fire Department
City of Sacramento Nuisance Response Team
City of Sacramento Public Utilities Department
City of San Bernardino Department of Code Enforcement
City of San Leandro Code Enforcement Department
County of Fresno Business License Department
County of Los Angeles Fire Department
County of Los Angeles Health Department
County of Riverside Health Department for Hazardous Waste
County of Sacramento Code Enforcement Department
County of Sacramento Department of Environmental Health
County of Sacramento Department of Human Assistance
County of Sacramento Department of Probation
County of Sacramento Department of Public Works, Transportation
County of San Bernardino Auto Theft Task Force
Federal Bureau of Investigation
Food & Drug Administration
Los Angeles Unified School District
Nevada City School Board
Town of Truckee
United States Department of Agriculture
United States Department of Labor
United States Drug Enforcement Agency

Hotlines

Section 329 of the CUIC empowers the Strike Force to establish procedures for soliciting referrals from the public, including, but not limited to, an advertised telephone hotline. In early 1994, the following hotlines were established for the public to report violations of tax, labor, and licensing laws:

- In an effort to improve customer service and make it easier for the public to report violations of tax, labor, and licensing law, the Strike Force established a toll-free hotline in 1997. The number is (800) 528-1783. This number can be reached 24 hours a day, 7 days a week. Outside of business hours, a recording machine answers the phone and records both messages and lead information.
- The BAR established a hotline for California residents to report violations of tax laws, labor laws, and other questionable business practices by automotive repair shops. The BAR staff was trained to screen the calls and prepare special lead referral forms, which are forwarded to the appropriate Strike Force member agencies. The statewide number is (800) 952-5210.
- The CSLB established two hotline numbers in the State for reporting contractors who operate without a license, avoid employment or income taxes, pay cash wages without a deduction statement, fail to pay minimum wage, or fail to provide workers' compensation insurance coverage. The number for Northern California is (916) 255-2924. The number for Southern California is (714) 994-7435.

Information Sharing

One Strike Force purpose is to facilitate and encourage the development and sharing of information necessary to combat the underground economy. Strike Force staff coordinators and staff from member agencies regularly share information and plan and coordinate Strike Force activities. A Memorandum of Understanding among member agencies has been prepared to facilitate the exchange of information not previously shared.

Strike Force staff have access to the databases of EDD, CSLB, FTB, BOE, the Department of Motor Vehicles, the Secretary of State, the Workers' Compensation Insurance Rating Bureau, and DIR Registration Files. These databases are used by staff to develop and screen leads for possible investigation.

Underground economy businesses constantly develop new schemes to avoid detection of their illegal activities. As these new schemes are identified, information regarding the schemes is shared with member agencies, business associations, and labor organizations. There is an ongoing need for Strike Force staff to be aware of the various types of schemes used in industries prone to underground economy activity. This knowledge facilitates the development of detection and enforcement techniques necessary to stop the illegal activities.

Partnerships among member agencies to improve information sharing have been established outside the umbrella of the Strike Force. These efforts are long-range projects to enhance information sharing, increase taxpayer access to information, reduce administrative burdens, increase the accuracy of data, and identify noncompliant industries. Strike Force staff are participating directly in many of these partnership projects and are closely monitoring all of these projects. A brief description of each partnership follows:

- Federal/State Partnership

This partnership consists of IRS, EDD, FTB, and BOE. Current projects include identification of noncompliant industries, sharing interagency information, education and issues for small businesses, joint collection, and joint training.

- FTB/EDD Strategic Partnership

This partnership consists of EDD and FTB and addresses the personal income tax program, which both agencies jointly administer. The vision of this partnership is to create an integrated system that offers numerous benefits to California's business community and individual taxpayers. These benefits include providing a single point of access for employers and individual taxpayers, increasing avenues for taxpayers and others to provide information to EDD and FTB, providing employers and individual taxpayers with greater access to information about their accounts with FTB and EDD, eliminating redundant reporting, increasing the accuracy and timeliness of data, reducing adversarial relationships, and increasing the fairness of the personal income tax and employment tax systems.

- EDD/FTB/BOE Strategic Tax Partnership

This partnership consists of the three California taxing agencies with the purpose of providing a new level of functional integration and cooperative business processing among the many and unique tax programs. Current projects include joint compliance, joint information technology, information exchange, joint field offices/taxpayer service centers, and communication.

Cooperation

Cooperative efforts among Strike Force member agencies continue to evolve and grow stronger. The EDD, BOE, and FTB have formed a strategic tax partnership aimed at increasing the sharing of information, better coordination of tax planning and policy development, and improving the quality of services to the public. The operations of the EETF have forged closer ties and improved coordination of enforcement activities among EDD, DIR, BOE, and DCA. Within the DCA, the CSLB, BAR, and the Bureau of Home Furnishings have been active participants in EETF operations. These partnerships and joint operations have improved program results in all the participating agencies, thereby providing the agencies with incentives for continuing cooperation and expansion of existing relationships.

In addition, relationships with other nonmember local, State, and federal agencies have improved. Joint operations are conducted on a regular basis with ABC and GALE local law enforcement participants. As a result of the success of joint ABC, EDD, DIR, and GALE operations, additional local law enforcement agencies throughout the State have requested the services of EETF. The EETF is also an active member of various local law enforcement task forces such as the Sacramento County Nuisance Response Team, Sacramento Valley Auto Theft Investigators, Southern California Employee Exploitation Task Force, and the City of Oakland's Alcoholic Beverage Action Team. As additional industries are added to the Strike Force target group, staff will liaison with the appropriate governmental agencies with regulatory or enforcement jurisdiction in those industries.

Strides have been made in increasing cooperation among all licensing, labor law, and employment tax enforcement agencies. A coordinated effort now exists that involves not only the Strike Force member agencies but also other local, federal, and State entities. Cooperative efforts are expected to continue and grow as the operations of the Strike Force become more successful and as other agencies become more aware that cooperative efforts breed success.

Employment Enforcement Task Force
Operational Summary

Year	1997	1998	1999	2000	% Change '99 to '00
Total Investigations	882	584	638	394	-38.2%
Investigations w/o DIR	0	0	0	50	
Labor Code Citations	1,061	678	652	313	-52.0%
Labor Code Citation Amounts	\$6,884,900	\$4,207,350	\$4,127,850	\$2,102,750	-49.1%
Average Labor Code Citation Amount	\$6,489	\$6,206	\$6,331	\$6,718	6.1%
EDD Audit Referrals	564	411	426	257	-39.7%
EDD Audits Completed	587	515	389	369	-5.1%
EDD Assessments	\$10,718,620	\$10,858,805	\$9,246,870	\$6,459,041	-30.1%
EDD Average Assessment	\$18,260	\$21,085	\$23,771	\$17,504	-26.4%
Previously Unreported Employees	6,363	4,664	3,929	3,886	-1.1%
Previously Unreported Wages	\$77,453,364	\$75,547,331	\$58,060,420	\$56,400,844	-2.9%

Construction Enforcement Project
Operational Summary

	EDD Audit Referrals	EDD Audits Completed	EDD Assessments	EDD Average Assessment
Calendar Year 1997	228	227	\$6,419,805	\$28,281
Calendar Year 1998	139	186	\$15,196,849	\$81,703
Calendar Year 1999	130	122	\$12,179,731	\$99,834
Calendar Year 2000	65	129	\$12,649,766	\$98,060



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